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9 **BEFORE THE**
CALIFORNIA BOARD OF ACCOUNTANCY
10 **DEPARTMENT OF CONSUMER AFFAIRS**
STATE OF CALIFORNIA

11 In the Matter of the Accusation Against:

Case No. AC-2005-43

12 STEPHEN MICHAEL HOUSE
2901 Douglas Blvd., #450
13 Roseville, CA 95661

**DEFAULT DECISION
AND ORDER**

14 Certified Public Accountant Certificate No.
46621

[Gov. Code, §11520]

15
16 Respondent.

17 FINDINGS OF FACT

18 1. On or about August 3, 2006, Complainant Carol Sigmann, in her official
19 capacity as the Executive Officer of the California Board of Accountancy, Department of
20 Consumer Affairs, filed Accusation No. AC-2005-43 against Stephen Michael House
21 (Respondent) before the California Board of Accountancy.

22 2. On or about December 5, 1986, the California Board of Accountancy
23 issued Certified Public Accountant Certificate Number 46621 to Stephen Michael House
24 (Respondent). On or about February 23, 1991, Stephen Michael House was issued Fictitious
25 Name Permit (FNP) # 222 for House and Company, Certified Public Accountant. The certified
26 public accountant certificate was in effect at all times relevant to the charges brought herein and
27 expired on April 30, 2005.

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1 3. On or about August 15, 2006, Jessica Taylor, an employee of the
2 Department of Justice, served by Certified and First Class Mail a copy of the Accusation No.
3 AC-2005-43, Statement to Respondent, Notice of Defense, Request for Discovery, and
4 Government Code sections 11507.5, 11507.6, and 11507.7 to Respondent's address of record
5 with the Board, which was and is 2901 Douglas Blvd., #450, Roseville, CA 95661. A copy of
6 the Accusation, the related documents, and Declaration of Service are attached as Exhibit A, and
7 are incorporated herein by reference.

8 4. Service of the Accusation was effective as a matter of law under the
9 provisions of Government Code section 11505, subdivision (c).

10 5. On or about August 21, 2006, the aforementioned documents were
11 returned by the U.S. Postal Service marked "Forwarding Address Expired." A copy of the postal
12 returned documents are attached hereto as Exhibit B, and are incorporated herein by reference.

13 6. Government Code section 11506 states, in pertinent part:

14 "(c) The respondent shall be entitled to a hearing on the merits if the respondent
15 files a Notice of Defense, and the notice shall be deemed a specific denial of all parts of the
16 accusation not expressly admitted. Failure to file a Notice of Defense shall constitute a waiver of
17 respondent's right to a hearing, but the agency in its discretion may nevertheless grant a hearing."

18 7. Respondent failed to file a Notice of Defense within 15 days after service
19 upon him of the Accusation, and therefore waived his right to a hearing on the merits of
20 Accusation No. AC-2005-43.

21 8. California Government Code section 11520 states, in pertinent part:

22 "(a) If the respondent either fails to file a notice of
23 defense or to appear at the hearing, the agency may take
24 action based upon the respondent's express admissions or
upon other evidence and affidavits may be used as evidence
without any notice to respondent."

25 9. Pursuant to its authority under Government Code section 11520, the Board
26 finds Respondent is in default. The Board will take action without further hearing and, based on
27 Respondent's express admissions by way of default and the evidence before it, contained in
28 Exhibits A and B, finds that the allegations in Accusation No. AC-2005-43 are true.

1 10. The total costs for investigation and enforcement are \$19,960.50 as of
2 October 5, 2006.

3 DETERMINATION OF ISSUES

4 1. Based on the foregoing findings of fact, Respondent Stephen Michael
5 House has subjected his Certified Public Accountant Certificate Number 46621 to discipline.

6 2. A copy of the Accusation and the related documents and Declaration of
7 Service are attached.

8 3. The agency has jurisdiction to adjudicate this case by default.

9 4. The California Board of Accountancy is authorized to revoke
10 Respondent's CPA based upon the following violations alleged in the Accusation:

11 a. Respondent is subject to disciplinary action under Code section
12 5100, subdivision (a) in that, on February 3, 2006, he was convicted on a plea of guilty in the
13 United States District Court, Eastern District of California in *United States of America v. Stephen*
14 *House*, Case No. CR-S-05-0178-EJG, of violations of 18 U.S.C., section 1343 (wire fraud, a
15 felony and a crime substantially related to the qualifications, functions or duties of a certified
16 public accountant within the meaning of Board Rule 99) committed during the years 2000
17 through 2004.

18 b. Respondent is subject to disciplinary action under Code section
19 5100, subdivision (c) in that from 2000 through 2004, he committed acts of dishonesty, fraud, or
20 gross negligence in the practice of public accountancy or in the performance of the bookkeeping
21 operations as follows:

22 i. While acting as the trustee of the Florence Brown Estate, Respondent
23 wrote checks to himself from the estate without the permission or authorization of the
24 beneficiaries of the estate.

25 ii. While acting as the trustee of the Barbara Hale Estate, Respondent wrote
26 checks to himself from the estate without the permission or authorization of the beneficiaries of
27 the estate.

28 ///

1 iii. While acting on behalf of Little Dry Creek Farm, LLC, Respondent, who
2 was also a partner of Little Dry Creek Farms, took money for himself from Little Dry Creek
3 without the permission or authorization of the partners of the LLC as follows:

4 A. Respondent wrote check No. 1094 dated June 3, 2002, for \$25,000.00
5 and check No. 1141 dated March 24, 2003, for \$15,000.00 from Little Dry Creek's checking
6 account to the account for House and Company.

7 B. On or about March 27, 2003, Respondent transferred \$10,000.00 from
8 Little Dry Creek's business checking account to the account for House and Company.

9 C. Respondent charged Little Dry Creek Farms \$4,973.09 for services not
10 approved by the other partners.

11 iv. While acting on behalf of National West Manufacturing, Inc., Respondent
12 diverted to his own benefit approximately \$2,231,637.00 which had been entrusted to him by
13 National West Manufacturing, Inc. for the payment of taxes or other obligations.

14 v. Respondent prepared National West Manufacturing, Inc.'s payroll tax
15 returns and made the corresponding payroll tax deposits for the quarters ended March 31, 1999,
16 through December 31, 2003. Respondent filed the payroll tax returns late and failed to make
17 timely payroll tax deposits. As a result, Respondent caused National West Manufacturing, Inc. to
18 incur penalties in excess of \$174,432.00.

19 c. Respondent is subject to disciplinary action under Code section
20 5100, subdivision (k) in that he committed acts of embezzlement, theft, or misappropriation of
21 funds or property, or obtaining money, property, or other valuable consideration by fraudulent
22 means or false pretenses as described above.

23 d. Respondent is subject to disciplinary action under Code section
24 5100, subdivision (j) in that he knowingly prepared, published, or disseminated false, fraudulent,
25 or materially misleading financial statements, reports, or information as follows:

26 i. Respondent prepared and filed for his client National West Manufacturing,
27 Inc. federal income tax returns for the years ended September 30, 2000, and September 30, 2001,
28 that were significantly different from the tax return copies provided to the client.

1 ii. Respondent knowingly made false entries into the National West
2 Manufacturing, Inc.'s general ledgers as follows:

3 A. In the September 30, 2001 fiscal year general ledger, entries were
4 made regarding a non-existent \$479,00.00 deposit and a non-existent \$250,000 patent.

5 B. In the September 30, 2002 fiscal year general ledger, entries were made
6 regarding a non-existent \$99,802.00 shareholder advance, non-existent leasehold improvements
7 for \$642,459.00 and wages were overstated by \$100,00.00.

8 C. In the September 30, 2003 fiscal year general ledger, entries were made
9 regarding non-existent leasehold improvements for \$126,000.00.

10 iii. Various misstatements were made by Respondent on the balance sheets for
11 National West Manufacturing, Inc for the September 30, 2003 fiscal year:

12 iv. Financial documents for Little Dry Creek Farms, LLC were altered in a
13 fashion apparently designed to hide Respondent's activities as described below:

14 A. A bank statement from California Bank for March 21, 2003, had a
15 \$10,000.00 wire transfer to House and Company "whited out."

16 B. In the 2002 general ledger, Respondent failed to indicate the payee
17 name for check No. 1094. The payee was, in fact, House and Company.

18 C. In the 2003 general ledger, Respondent failed to indicate the payee
19 name for check No. 1141. The payee was, in fact, House and Company.

20 D. Respondent provided to the Little Dry Creek partners an escrow
21 settlement statement that was dated on the first page June 30, 2003, and signed and dated on the
22 second page February 11, 2003, that furthermore represented to the partners the amount of money
23 paid to Little Dry Creek from the United States Department of Agriculture, Natural Resources
24 Conservation Services (NRCS). These documents and the information on them were later
25 determined to be false.

26 e. Respondent is subject to disciplinary action under Code section
27 5100, subdivision (i) in that he committed acts of fiscal dishonesty or breach of fiduciary
28 responsibility as described above.

1 f. Respondent is subject to disciplinary action under Code section
2 5037, subdivision (b) in that he failed to furnish to his former client, upon request and
3 reasonable notice, working papers, to the extent that they include records that would ordinarily
4 constitute part of the client's records and are not otherwise available to the client, as well as any
5 accounting or other records belonging to, or obtained from or on behalf of the client which the
6 licensee removed from the client's premises or received for the client's account in that on or
7 about the fall of 2004, the partners of the Little Dry Creek Farms, LLC requested that
8 Respondent turn over to their new accountant the company's complete records and accounting
9 documents. After receiving some, but not all, documents, the partners and the new accountant
10 sent a letter to Respondent on October 12, 2004, requesting that the remaining documents be sent
11 as soon as possible. Finally, in January of 2005, Respondent returned the remaining documents.
12 Respondent, however, did not turn over a copy of the billing statement from which he allegedly
13 paid check No. 5442 for \$15,000.00 to the USDA Department of Treasury (NRCS), or a receipt
14 for said payment.

15 g. Respondent is subject to disciplinary action under Code section
16 5100, subdivision (g) as that section interacts with Board Rule 68 (Title 16, Cal. Code Regs.,
17 § 68) in that he did not, after demand by or on behalf of a client, provide said books, records, or
18 other data, as were the client's records.

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1 ORDER

2 IT IS SO ORDERED that Certified Public Accountant Certificate Number 46621,
3 heretofore issued to Respondent Stephen Michael House, is revoked.

4 Pursuant to Government Code section 11520, subdivision (c), Respondent may
5 serve a written motion requesting that the Decision be vacated and stating the grounds relied on
6 within seven (7) days after service of the Decision on Respondent. The agency in its discretion
7 may vacate the Decision and grant a hearing on a showing of good cause, as defined in the
8 statute.

9 This Decision shall become effective on January 7, 2007.

10 It is so ORDERED December 8, 2006

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12 
13 FOR THE CALIFORNIA BOARD OF ACCOUNTANCY
14 DEPARTMENT OF CONSUMER AFFAIRS
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17 Attachments:

18 Exhibit A: Accusation No. AC-2005-43, Related Documents, and Declaration of Service
19 Exhibit B: Postal Return Documents
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26 10280111.wpd
27 DOJ docket number:SA2005103347
28

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Attorneys for Complainant

**BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA**

In the Matter of the Accusation Against:

Case No. AC-2005-43

STEPHEN MICHAEL HOUSE d.b.a. HOUSE
AND COMPANY
2901 Douglas Boulevard, Suite 255
Roseville, CA 95661

A C C U S A T I O N

Certified Public Accountant Certificate No. 46621

Respondent.

Complainant alleges:

PARTIES

1. Carol Sigmann (Complainant) brings this Accusation solely in her official capacity as the Executive Officer of the California Board of Accountancy, Department of Consumer Affairs.

2. On or about December 5, 1986, the California Board of Accountancy issued Certified Public Accountant Certificate Number 46621 to Stephen Michael House (Respondent). On or about February 23, 1991, Stephen Michael House was issued Fictitious Name Permit (FNP) # 222 for House and Company, Certified Public Accountant. The certified public accountant certificate was in effect at all times relevant to the charges brought herein and expired on April 30, 2005.

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JURISDICTION

3. This Accusation is brought before the California Board of Accountancy (Board), Department of Consumer Affairs, under the authority of the following laws. All section references are to the Business and Professions Code unless otherwise indicated.

4. This Accusation is brought before the Board under the authority of Code section 5100 of the Business and Professions Code,^{1/} which provides, in relevant part, that, after notice and hearing the board may revoke, suspend or refuse to renew any permit or certificate granted, for unprofessional conduct which includes, but is not limited to, one or any combination of the causes specified therein, including those in the following subparagraphs:

5100(a) Conviction of any crime substantially related to the qualifications, functions and duties of a certified public accountant or a public accountant.

5100 (c) Dishonesty, fraud, or gross negligence in the practice of public accountancy or in the performance of the bookkeeping operations described in Section 5052.

5100 (g) Willful violation of this chapter or any rule or regulation promulgated by the board under the authority granted under this chapter.

5100(i) Fiscal dishonesty or breach of fiduciary responsibility of any kind.

5100(j) Knowing preparation, publication, or dissemination of false, fraudulent, or materially misleading financial statements, reports, or information.

5100 (k) Embezzlement, theft, or misappropriation of funds or property, or obtaining money, property, or other valuable consideration by fraudulent means or false pretenses

5. Code section 5037(b) provides in pertinent part that a licensee shall furnish to his former client, upon request and reasonable notice, working papers, to the extent

1. All statutory references are to the Business and Professions Code unless otherwise indicated.

that they include records that would ordinarily constitute part of the client's records and are not otherwise available to the client, as well as any accounting or other records belonging to, or obtained from or on behalf of the client which the licensee removed from the client's premises or received for the client's account.

6. Board Rule 58 (Title 16, Cal. Code Regs., § 58) a regulation of the Board, requires that a licensee comply with all applicable professional standards. The AICPA's *Code of Professional Conduct* includes Section I - Principles and Section II - Rules. Both the Principles (Articles III and VI) and the Rules (Rule 102, rule 501) are relevant to the allegations herein. For example, Rule 102 (Integrity and Objectivity), provides that:

"In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others."

7. Board Rule 68 (Title 16, Cal. Code Regs., § 68) provides that a licensee, after demand by or on behalf of a client, for books, records, or other data, whether in written or machine sensible form, that are the client's records shall not retain such records. Further, although in general the accountant's working papers are the property of the licensee, if such working papers include records which would ordinarily constitute part of the licensee's books and records and are not otherwise available to the client, then the information on those working papers must be treated the same as if it were part of the client's books and records.

Board Rule 68.1 further defines working papers, and requires that licensees adopt reasonable procedures for the safe custody of working papers and that they retain working papers for purposes and periods specified therein and otherwise required by law.

8. Board Rule 99 (Title 16, Cal. Code Regs., § 99) provides that for the purposes of denial, suspension, or revocation of a certificate or permit pursuant to Division 1.5 (commencing with Section 475) of the Business and Professions Code, a crime or act shall be considered to be substantially related to the qualifications, functions or duties of a certified public accountant or public accountant if to a substantial degree it evidences present or potential unfitness of a certified public accountant or public accountant to perform the functions authorized by his certificate or permit in a manner consistent with the public health, safety, or

1 welfare. Such crimes or acts shall include but not be limited to those involving the following:
2 (a) Fiscal dishonesty or breach of fiduciary responsibility of any kind; (b) Fraud or deceit in
3 obtaining a certified public accountant's certificate or a public accountant's permit under Chapter
4 1, Division III of the Business and Professions Code; (c) Dishonesty, fraud, or gross negligence
5 in the practice of public accountancy or in the performance of the bookkeeping operations
6 described in Section 5052 of the code; (d) Violation of any of the provisions of Chapter 1,
7 Division III of the Business and Professions Code or willful violation of any rule or regulation of
8 the board.

9 9. Code section 5107 provides for recovery by the Board of all reasonable
10 costs of investigation and prosecution of the case, including, but not limited to, attorney's fees
11 when any holder of a permit or certificate is found to have committed a violation or violations of
12 this chapter. A certified copy of the actual costs, or a good faith estimate of costs signed by the
13 Executive Officer, shall be prima facie evidence of reasonable costs of investigation and
14 prosecution of the case.

15 10. Code sections 118(b) and 5109 provide in pertinent part that the
16 suspension, expiration, cancellation, or forfeiture of a license issued by the Board shall not
17 deprive the Board of its authority to investigate, or to institute or continue a disciplinary
18 proceeding against, a licensee upon any ground provided by law, or to enter an order suspending
19 or revoking the license or otherwise taking disciplinary action against the licensee on any such
20 ground.

21 11. Section 5070.6 of the Code provides, in pertinent part, that an expired
22 permit may be renewed at any time within five years after its expiration.

23 12. Code section 5000.1 provides as follows: "Protection of the public shall be
24 the highest priority for the California Board of Accountancy in exercising its licensing,
25 regulatory, and disciplinary functions. Whenever the protection of the public is inconsistent with
26 other interests sought to be promoted, the protection of the public shall be paramount."

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1 FIRST CAUSE FOR DISCIPLINE

2 (Conviction of a Crime Substantially Related)

3 13. Respondent is subject to disciplinary action under section 5100 (a) in that,
4 on February 3, 2006, he was convicted on a plea of guilty in the United States District Court,
5 Eastern District of California in *United States of America v. Stephen House*, Case No. CR-S-05-
6 0178-EJG, of violations of 18 U.S.C. § 1343 (wire fraud, a felony and a crime substantially
7 related to the qualifications, functions or duties of a certified public accountant within the
8 meaning of Board Rule 99) committed during the years 2000 through 2004. As part of the plea
9 agreement, Respondent admitted that he devised and participated in a scheme to defraud his
10 clients National West Manufacturing, Inc., Little Dry Creek Farms, LLC, the Florence Brown
11 Estate, the Barbara Hale Estate, Hazel Elizabeth Hinshaw and Charles Risley to obtain money for
12 his own benefit by materially false and fraudulent pretenses. Respondent embezzled money
13 entrusted him by his clients for the purpose of investment, management, or payment of their
14 expenses by diverting said money to himself without their permission. As a result of
15 Respondent's fraudulent schemes, his clients suffered losses of at least \$1,000,000.00.

16 SECOND CAUSE FOR DISCIPLINE

17 (Dishonesty, Fraud, Gross Negligence)

18 14. Respondent is subject to disciplinary action under section 5100 (c) in that
19 from 2000 through 2004, he committed acts of dishonesty, fraud, or gross negligence in the
20 practice of public accountancy or in the performance of the bookkeeping operations as follows:

21 a. While acting as the trustee of the Florence Brown Estate, Respondent
22 wrote checks to himself from the estate without the permission or authorization of the
23 beneficiaries of the estate.

24 b. While acting as the trustee of the Barbara Hale Estate, Respondent wrote
25 checks to himself from the estate without the permission or authorization of the beneficiaries of
26 the estate.

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c. While acting on behalf of Little Dry Creek Farm, LLC, Respondent, who was also a partner of Little Dry Creek Farms, took money for himself from Little Dry Creek without the permission or authorization of the partners of the LLC as follows:

i. Respondent wrote check no. 1094 dated June 3, 2002, for \$25,000.00 and check no. 1141 dated March 24, 2003 for \$15,000.00 from Little Dry Creek's checking account to the account for House and Company.

ii. On or about March 27, 2003, Respondent transferred \$10,000.00 from Little Dry Creek's business checking account to the account for House and Company.

iii. Respondent charged Little Dry Creek Farms \$4,973.09 for services not approved by the other partners.

d. While acting on behalf of National West Manufacturing, Inc., Respondent diverted to his own benefit money which had been entrusted to him by National West Manufacturing, Inc. for the payment of taxes or other obligations as set forth below:

Payments to House and Company vs. Payments by House and Company

	<u>9/30/01</u>	<u>9/30/02</u>	<u>9/30/03</u>	<u>3 Year Total</u>
<u>Paid to House</u>	\$ 1,558,894.00	\$ 1,347,214.00	\$ 720,096.00	\$ 3,626,204.00
<u>Paid by House</u>	<u>9/30/01</u>	<u>9/30/02</u>	<u>9/30/03</u>	<u>Total</u>
Form 940	\$ 4,821.00	\$ 3,964.00	\$ 3,108.00	\$ 11,893.00
Form 941	\$ 389,899.00	\$ 292,601.00	\$ 270,010.00	\$ 952,510.00
State	\$ 63,689.00	\$ 56,604.00	\$ 51,214.00	\$ 171,507.00
Worker's Comp	\$ 64,220.00	\$ 77,441.00	\$ 111,527.00	\$ 253,188.00
Sales Tax	\$ 715.00	\$ 1,510.00	\$ 3,254.00	\$ 5,479.00
Total	\$ 523,344.00	\$ 432,120.00	\$ 439,113.00	\$ 1,394,577.00
<u>Difference:</u>	\$ 1,035,550.00	\$ 915,094.00	\$ 280,983.00	\$ 2,231,627.00

In sum National West Manufacturing, Inc. paid to House and Company \$3,626,204.00 for the purpose of the payment by House of National West's obligations, but House and Company paid out only \$1,394,577.00, leaving \$2,231,637.00 unaccounted for.

e. Respondent prepared National West Manufacturing, Inc's payroll tax returns and made the corresponding payroll tax deposits for the quarters ended March 31, 1999 through December 31, 2003. Respondent filed the payroll tax returns late and failed to make timely payroll tax deposits. As a result, Respondent caused National West Manufacturing, Inc. to incur penalties in excess of \$174,432.00 as set forth below:

<u>Qtr. Ended</u>	<u>Total Paid</u>	<u>Tax Paid</u>	<u>Penalty Paid</u>	<u>Return Due</u>	<u>Return Filed</u>
3-31-99	\$ 97,000.00	\$ 88,186.62	\$ 8,814.57	4-30-99	6-14-99
6-30-99	\$ 51,170.31	\$ 31,998.39	\$ 4,528.47	5-31-99	2-14-00
9-30-99	\$ 125,000.00	\$ 86,238.74	\$ 8,623.86	10-31-99	12-06-99
12-31-99	\$ 191,282.14	\$ 154,155.23	\$ 48,278.66	1-31-00	12-25-00
3-31-00	\$ 95,018.19	\$ 85,773.16	\$ 9,006.18	4-30-00	6-26-00
6-31-00	\$ 102,604.70	\$ 92,773.55	\$ 9,578.69	7-30-00	9-11-00
9-30-00	\$ 105,545.99	\$ 94,705.14	\$ 10,184.87	10-31-00	1-01-01
12-31-00	\$ 138,634.04	\$ 123,955.51	\$ 13,635.10	1-31-01	4-23-01
3-31-01	\$ 107,799.72	\$ 97,207.06	\$ 10,206.75	4-30-01	6-25-01
6-30-01	\$ 91,700.00	\$ 84,379.02	\$ 5,010.74	7-30-01	9-17-01
9-30-01	\$ 85,034.00	\$ 84,357.10	\$ 2,876.86	10-31-01	12-31-01
12-31-01	\$ 75,204.15	\$ 73,901.54	\$ 1,173.26	1-31-02	4-15-02
3-31-02	\$ 85,222.67	\$ 83,637.18	\$ 1,402.26	4-30-02	7-08-02
6-30-02	\$ 88,067.60	\$ 62,145.23	\$ 10,701.58	7-31-02	10-28-02
9-30-02	\$ 77,500.00	\$ 72,917.32	\$ 4,582.68	10-31-02	12-09-02
12-31-02	\$ 72,158.78	\$ 73,475.98	\$ (1,406.95)	1-31-03	4-07-03
3-31-03	\$ 77,897.70	\$ 75,452.36	\$ 2,432.97	4-30-03	6-23-03
6-30-03	\$ 74,645.84	\$ 65,137.22	\$ 8,972.55	7-31-03	10-20-04
9-30-03	\$ 63,406.88	\$ 55,944.38	\$ 6,590.95	10-31-03	2-16-04
12-31-03	\$ 65,036.00	\$ 54,341.64	\$ 9,238.07	1-31-04	4-19-04
<u>Total</u>	\$ 1,869,928.71	\$ 1,640,682.37	\$ 174,432.12	-	-

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1 THIRD CAUSE FOR DISCIPLINE

2 (Embezzlement, Theft, Misappropriation of Funds)

3 15. Respondent is subject to disciplinary action under section 5100 (k) in that
4 he committed acts of embezzlement, theft, or misappropriation of funds or property, or obtaining
5 money, property, or other valuable consideration by fraudulent means or false pretenses as
6 described in paragraphs 13 and 14, above.

7 FOURTH CAUSE FOR DISCIPLINE

8 (Knowing Preparation, Publication, or Dissemination of False, Fraudulent, or Materially
9 Misleading Financial Statements)

10 16. Respondent is subject to disciplinary action under section 5100(j) in that
11 he knowingly prepared, published, or disseminated false, fraudulent, or materially misleading
12 financial statements, reports, or information as follows:

13 a. Respondent prepared and filed for his client National West Manufacturing,
14 Inc. federal income tax returns for the years ended September 30, 2000 and September 30, 2001
15 that were significantly different from the tax return copies provided to the client as set forth
16 below:

<u>Tax Year</u>	<u>Item</u>	<u>Filed with IRS</u>	<u>Client Copy</u>	<u>Difference</u>
9-30-00	Taxable income	\$ (28,043.00)	\$ 1,141,957.00	\$ 1,170,000.00
	Tax	\$ 0.00	\$ 388,265.00	\$ 388,265.00
	Payments	\$ 0.00	\$ 390,377.00	\$ 390,377.00
	Overpayments	\$ 0.00	\$ 2,112.00	\$ 2,112.00
9-30-01	Taxable income	\$ (46,150.00)	\$ 15,118.00	\$ 61,268.00
	Tax	0.00	\$ 7,641.00	\$ 7,641.00
	Payments	0.00	\$ 302,112.00	\$ 302,112.00
	Overpayments	0.00	\$ 294,471.00	\$ 294,471.00

27 b. Respondent knowingly made false entries into the National West
28 Manufacturing, Inc.'s general ledgers as follows:

i. In the September 30, 2001 fiscal year general ledger, entries were made regarding a non-existent \$479,00.00 deposit and a non-existent \$250,000 patent.

ii. In the September 30, 2002 fiscal year general ledger, entries were made regarding a non-existent \$99,802.00 shareholder advance, non-existent leasehold improvements for \$642,459.00 and wages were overstated by \$100,00.00.

iii. In the September 30, 2003 fiscal year general ledger, entries were made regarding non-existent leasehold improvements for \$126,000.00.

c. As described below, various misstatements were made by Respondent on the balance sheets for National West Manufacturing, Inc for the September 30, 2003 fiscal year:

<u>Item</u>	<u>Resp's amounts</u>	<u>Actual Amounts</u>	<u>Difference</u>
Cash in Bank	\$ 141,337.00	\$ 141,337.00	\$ 0.00
A/R	\$ 1,239,478.00	\$ 744,599.00	\$ (494,879.00)
Employee Advance	\$ 856.00	\$ 856.00	\$ 0.00
N/r Stockholder	\$ 943,975.00	\$ 1,293,777.00	\$ 349,802.00
N/r Land	\$ 112,942.00	\$ 112,942.00	\$ 0.00
Inventory	\$ 687,874.00	\$ 283,907.00	\$ (403,967.00)
Prepaid Property Tax	\$ 49,322.00	\$ 0.00	\$ (49,322.00)
Prepaid Income Tax	\$ 507,000.00	\$ 0.00	\$ (507,000.00)
Total Current Assets	\$ 3,682,784.00	\$ 2,577,418.00	\$ (1,105,366.00)
F/A	\$ 5,943,370.00	\$ 4,635,109.00	\$ 1,308,261.00
Accum. Depr.	\$ (3,110,912.00)	\$ (2,901,753.00)	\$ 209,159.00
Total assets	\$ 6,515,242.00	\$ 4,310,774.00	\$ 2,204,468.00
Current Liabilities	\$ 537,333.00	\$ 771,146.00	\$ 233,813.00
LTD	\$ 522,493.00	\$ 522,493.00	\$ 0.00
Common Stock	\$ 88,350.00	\$ 88,350.00	\$ 0.00
R/E	\$ 5,367,066.00	\$ 2,928,785.00	\$ (2,438,281.00)
Total Liabilities and Owner's Equity	\$ 6,515,242.00	\$ 4,310,774.00	\$ 2,204,468.00

d. Financial documents for Little Dry Creek Farms, LLC were altered in a fashion apparently designed to hide Respondent's activities as described below:

1 i. A bank statement from California Bank for March 21, 2003 had a
2 \$10,000.00 wire transfer to House and Company "whited out."
3 ii. In the 2002 general ledger, Respondent failed to indicate the payee
4 name for check no. 1094. The payee was, in fact, House and Company.
5 iii. In the 2003 general ledger, Respondent failed to indicate the payee
6 name for check no. 1141. The payee was, in fact, House and Company.
7 iv. Respondent provided to the Little Dry Creek partners an escrow
8 settlement statement that was dated on the first page June 30, 2003 and signed and dated on the
9 second page February 11, 2003, that furthermore represented to the partners the amount of money
10 paid to Little Dry Creek from the United States Department of Agriculture, Natural Resources
11 Conservation Services (NRCS). These documents and the information on them were later
12 determined to be false.

13 FIFTH CAUSE FOR DISCIPLINE

14 (Fiscal Dishonesty or Breach of Fiduciary Responsibility)

15 17. Respondent is subject to disciplinary action under section 5100 (i) in that
16 he committed acts of fiscal dishonesty or breach of fiduciary responsibility as described in
17 paragraphs 14, 15, and 16, above.

18 SIXTH CAUSE FOR DISCIPLINE

19 (Ownership of Accountants' Work Papers)

20 18. Respondent is subject to disciplinary action under section 5037(b) in that
21 he failed to furnish to his former client, upon request and reasonable notice, working papers, to
22 the extent that they include records that would ordinarily constitute part of the client's records
23 and are not otherwise available to the client, as well as any accounting or other records belonging
24 to, or obtained from or on behalf of the client which the licensee removed from the client's
25 premises or received for the client's account as follows:

26 19. On or about the fall of 2004, the partners of the Little Dry Creek Farms,
27 LLC requested that Respondent turn over to their new accountant the company's complete
28 records and accounting documents. After receiving some, but not all, documents, the partners

1 and the new accountant sent a letter to Respondent on October 12, 2004, requesting that the
2 remaining documents be sent as soon as possible. Finally, in January of 2005, Respondent
3 returned the remaining documents. Respondent, however, did not turn over a copy of the billing
4 statement from which he allegedly paid check no. 5442 for \$15,000.00 to the USDA Department
5 of Treasury (NRCS), or a receipt for said payment.

6 SEVENTH CAUSE FOR DISCIPLINE

7 (Retention of Client Records)

8 20. Respondent is subject to disciplinary action under section 5100(g) as that
9 section interacts with Board Rule 68 (Title 16, Cal. Code Regs., § 68) in that he did not, after
10 demand by or on behalf of a client, provide said books, records, or other data, as were the client's
11 records. The facts and circumstances are as described in paragraph 19, above.

12 PRAYER


13 WHEREFORE, Complainant requests that a hearing be held on the matters herein
14 alleged, and that following the hearing, the California Board of Accountancy issue a decision:

15 1. Revoking, suspending or otherwise imposing discipline on Certified
16 Public Accountant Certificate Number 46621 issued to Stephen Michael House.

17 2. Ordering Stephen Michael House to pay the California Board of
18 Accountancy the reasonable costs of the investigation and enforcement of this case, pursuant to
19 Business and Professions Code section 5107; and

20 3. Taking such other and further action as deemed necessary and proper.

21 DATED: August 9, 2006

22 
23 CAROL SIGMANN
24 Executive Officer
25 California Board of Accountancy
26 Department of Consumer Affairs
27 State of California
28 Complainant